

KINGMAN AIRPORT AUTHORITY, INC.
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kingman Airport Authority, Inc.
Kingman, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Kingman Airport Authority, Inc., as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Kingman Airport Authority, Inc. as of June 30, 2017 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kingman Airport Authority, Inc.'s basic financial statements. The Statement of Revenues and Expenses – Budget and Actual – Budgetary Basis is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The Statement of Revenues and Expenses – Budget and Actual – Budgetary Basis and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



HintonBurdick Arizona, PLLC
Flagstaff, Arizona
October 30, 2017

KINGMAN AIRPORT AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

We (the Kingman Airport Authority, Inc. (Authority)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2017. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities; the sources, uses, and changes in resources; adherence to budget; service levels; limitations; significant economic factors; and the status of infrastructure and its impacts on our debt and operation.

FINANCIAL HIGHLIGHTS

- The assets of the Kingman Airport, Inc. exceeded its liabilities at the close of the most recent fiscal year by \$20,574,459 (net position). Total net position includes \$17,916,655 classified as net investment in capital assets and \$2,657,804 in unrestricted net position.
- The Kingman Airport, Inc.'s operations produced an operating loss of \$1,139,778 for the fiscal year. Although much of this loss can be attributable to noncash depreciation expense on assets that were contributed by the federal government or acquired with the aid of grants, the Authority still relies on revenue from the building space and hangars that are continually leased to other parties.
- Operating revenues decreased from \$1,361,518 to \$1,301,867.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves to introduce the Authority's basic financial statements. The Authority's basic financial statements have two components: 1) fund financial statements, and 2) notes to the basic financial statements. Separate government-wide financial statements are not presented since the Authority has only one enterprise fund.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Kingman Airport Authority, Inc., like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unlike most other governments, which have multiple funds, all of the Authority's activities are business-type activities and are accounted for in a single proprietary fund.

The *statement of net position* presents information on the Authority's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information on how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

**KINGMAN AIRPORT AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Notes to Basic Financial Statements

The notes to basic financial statements (pages 13 - 22) provide additional information that is essential to a full understanding of the data provided in the fund financial statements and should be read with the financial statements.

Financial Analysis

Net position may serve as a useful indicator of a government's financial position. At the end of the fiscal year, the Kingman Airport Authority, Inc's assets exceeded liabilities by \$20,574,459.

Airports are capital-intensive enterprises. Approximately 87% of the Authority's net position is invested in capital assets. The Authority uses these assets to provide aviation access and services to the flying public and the surrounding community; consequently, these assets are not available for future spending.

**Table A-1
Net Position**

	2017	2016	% Change
Current and Other Assets	\$2,762,528	\$3,431,145	(19.5)
Capital Assets, Net of Accumulated Depreciation	17,926,887	16,819,411	6.6
Total Assets	<u>20,689,415</u>	<u>20,250,556</u>	
Current Liabilities	114,956	933,623	(87.7)
Noncurrent Liabilities	0	10,232	(100.0)
Total Liabilities	<u>114,956</u>	<u>943,855</u>	
Net Position:			
Net Investment in Capital Assets	17,916,655	16,799,347	6.7
Unrestricted	2,657,804	2,507,354	6
Total Net Position	<u>\$20,574,459</u>	<u>\$19,306,701</u>	6.6

Net position increased by \$1,267,758 from the previous fiscal year-end. This was primarily due to capital contributions exceeding the net increase in Capital Assets, Net of Accumulated Depreciation during the year.

**KINGMAN AIRPORT AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Business-Type Activities

All of the Authority's activities are classified as business-type activities. At the end of the current fiscal year, the Kingman Airport Authority, Inc. is able to report a positive balance in its net position.

**Table A-2
Changes in Net Position**

	2017	2016	% Change
REVENUES			
Leases	\$565,403	\$561,879	0.6
Capital Grants and Contributions	2,348,059	1,329,845	76.6
Other	749,659	997,695	(24.9)
Total Revenues	<u>3,663,121</u>	<u>2,889,419</u>	<u>26.8</u>
EXPENSES			
Depreciation	1,528,646	1,497,340	2.1
Other Operating Expenses	912,999	925,263	(1.3)
Nonoperating Expenses	84	8,080	(98.9)
Total Expenses	<u>2,441,729</u>	<u>2,430,683</u>	<u>0.5</u>
CHANGE IN NET POSITION	1,221,392	458,736	166.3
Net Position - Beginning of Year	19,306,701	18,847,965	2.4
Prior period adjustment	46,366	0	100.0
NET POSITION - END OF YEAR	<u><u>\$20,574,459</u></u>	<u><u>\$19,306,701</u></u>	<u>6.3</u>

Capital grants and contributions increased by \$1,018,214 mainly due to the Authority receiving grants from ADOT for the Runway and Taxiway, and a grant from the City of Kingman for the Shipping Lane.

Other revenues decreased by \$248,036 due to a sale of parcel of land in the previous year.

The Authority's expenses stayed similar to the prior year due to no significant changes in operations.

BUDGETARY HIGHLIGHTS

The Authority prepares a budget annually which is submitted to the Board of Directors for approval during the spring of each year. The budget is used as a management tool; it is not a legally binding document. The budget and annual comparisons of actual to budget is prepared on the budgetary basis of accounting. There were no significant changes to the budget during the year. Although the budget is not legally adopted, it is an important management tool used throughout the fiscal year. See page 24 for a presentation of the budget

KINGMAN AIRPORT AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

to actual comparison for the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Kingman Airport Authority, Inc.'s capital assets as of June 30, 2017 amount to \$17,926,887 (net of accumulated depreciation), a net increase of about 7%. The capital assets include runways and taxiways; buildings; improvements; machinery and equipment. A large majority of these assets were contributed to the airport directly or were purchased with the aid of federal and state grants.

Major capital asset events during the current fiscal year included the following:

- Taxiway design.
- Runway.
- Shipping Lane.
- Wildlife Hazard Assessment.

The following table provides a breakdown of the capital assets of the Kingman Airport Authority, Inc. at June 30, 2017 and 2016.

Table A-3
Capital Assets
(Net of Accumulated Depreciation)

	Business-Type Activities	
	2017	2016
Land Improvements	\$14,201,155	\$12,429,764
Building and Improvements	2,857,062	2,502,089
Furniture, Machinery, and Equipment	154,663	152,572
Construction in Progress	714,007	1,734,986
Total Capital Assets	<u>\$17,926,887</u>	<u>\$16,819,411</u>

LONG-TERM OBLIGATIONS

The Authority has a capital lease agreement for a tractor with a value of \$47,311. Further detail on the lease obligation may be found in Note 5.

Table A-4
Long-term Obligations

	2017	2016
Capital Lease Payable	<u>\$10,232</u>	<u>\$20,065</u>

**KINGMAN AIRPORT AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The general economy in Kingman remains flat, however the community is beginning to see new construction increases over last year, primarily in new houses. Home sales are increasing at a modest rate and consumer confidence remains reserved. In the last year there have been new businesses locating in the airport industrial park in existing spaces and job generation has increased. Although a positive trend, the employment increase has yet to reach the total employment at the park which peaked in 2007.

Kingman's geographic location makes the community suited logistically for manufacturers to service southern California, Arizona, Nevada, as well as parts of Utah and New Mexico overnight. National economic conditions and the aging population within the labor force have continued to affect the number of inquiries from East Coast and Midwest companies looking to expand their operations into the Southwest to take advantage of the Kingman location. Proceeds from land sales within the industrial park as a result of growth will be utilized to construct basic infrastructure and capital improvement projects for the airfield and industrial park.

Lease revenues and user fees will continue to fund the Authority's operations. Lease opportunities are being pursued and encouraged along with promoting land sales. New leases include an automatic annual adjustment of 3% of the base rent effective July 1, of each year, and as older leases expires, they will be replaced with language incorporating automatic adjustments as well.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Kingman Airport Authority, Inc.'s finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional information should be addresses to:

Kingman Airport Authority, Inc.
Accounting Department
7000 Flightline Drive
Kingman, AZ 86401
928-757-2134

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KINGMAN AIRPORT AUTHORITY, INC.
Statement of Net Position
June 30, 2017

	<u>2017</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,532,444
Accounts receivable, net of allowance	161,437
Intergovernmental receivable	33,560
Prepaid Insurance	35,087
Total current assets	<u>2,762,528</u>
Noncurrent assets:	
Construction-in-progress	714,007
Land improvements	30,994,567
Building and improvements	4,967,377
Furniture, machinery, and equipment	918,492
Less accumulated depreciation	<u>(19,667,556)</u>
Total noncurrent assets	<u>17,926,887</u>
Total assets	<u><u>\$ 20,689,415</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 67,894
Accrued wages and benefits	18,144
Compensated absences	11,022
Capital lease payable - current	10,232
Customer deposits payable	7,664
Total current liabilities	<u>114,956</u>
Noncurrent liabilities:	
Capital lease payable - long term	<u>-</u>
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>114,956</u>
Net Position	
Net investment in capital assets	17,916,655
Unrestricted	<u>2,657,804</u>
Total net position	<u>20,574,459</u>
Total liabilities and net position	<u><u>\$ 20,689,415</u></u>

The accompanying notes are an integral part of the financial statements.

KINGMAN AIRPORT AUTHORITY, INC.
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

	<u>2017</u>
Operating revenues	
Leases	\$ 565,403
Airport usage fees	<u>736,464</u>
Total operating revenues	<u>1,301,867</u>
Operating expenses	
Salary and wages	392,973
Payroll taxes and benefits	146,492
Office expense	12,663
Professional services	84,721
Maintenance and repairs	51,835
Motor pool	11,954
Operational expense	212,361
Depreciation and amortization	<u>1,528,646</u>
Total operating expenses	<u>2,441,645</u>
Operating income / (loss)	<u>(1,139,778)</u>
Non-operating revenues (expenses)	
Contributions and donations	11,420
Interest revenue	1,775
Miscellaneous Income	540
Interest expense	<u>(624)</u>
Total non-operating revenues (expenses)	<u>13,111</u>
Income (loss) before capital contributions	(1,126,667)
Capital Contributions	<u>2,348,059</u>
Change in net position	1,221,392
Total net position - beginning of year	19,306,701
Prior period adjustment	<u>46,366</u>
Total net position - end of year	<u>\$ 20,574,459</u>

The accompanying notes are an integral part of the financial statements.

KINGMAN AIRPORT AUTHORITY, INC.
Statement of Cash Flows
For the Year Ended June 30, 2017

	<u>2017</u>
Cash flows from operating activities:	
Cash received from customers	\$ 1,208,083
Cash paid to suppliers for goods and services	(477,183)
Cash paid to employees	(403,203)
Customer deposits received (paid)	<u>2,912</u>
Cash flows from operating activities	<u>330,609</u>
Cash flows from capital and related financing activities:	
Capital grants, contributions and other	3,136,651
Purchase of capital assets	(3,479,434)
Principal paid on long-term debt	(9,832)
Interest paid	<u>(624)</u>
Cash flows from capital and related financing activities	<u>(353,239)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,775</u>
Cash flows from investing activities	<u>1,775</u>
Net change in cash and cash equivalents, including restricted cash	(20,855)
Cash and cash equivalents, beginning of year including restricted cash	<u>2,553,299</u>
Cash and cash equivalents, end of year including restricted cash	<u><u>\$ 2,532,444</u></u>

The accompanying notes are an integral part of the financial statements.

KINGMAN AIRPORT AUTHORITY, INC.
Statement of Cash Flows - Continued
For the Year Ended June 30, 2017

	<u>2017</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:	
Operating income / (loss)	\$ (1,139,778)
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:	
Depreciation	1,528,646
Changes in operating assets and liabilities:	
(Increase)/decrease in receivables	(93,784)
(Increase)/decrease in prepaid insurance	(7,689)
Increase/(decrease) in accounts payable	50,532
Increase/(decrease) in accrued wages and benefits	1,243
Increase/(decrease) in deposits payable	2,912
Increase/(decrease) in accrued compensation	<u>(11,473)</u>
Net cash flows from operating activities	<u>\$ 330,609</u>
 Supplemental schedule of non-cash financing and investing activities	
Acquisition of capital assets from prior period adjustment	\$ 18,968
Increase of Prepaids from a prior period adjustment	\$ 27,398
Acquisition of capital assets from decrease in accounts payable	\$ 811,748

The accompanying notes are an integral part of the financial statements.

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Basic Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies

Nature of Organization

The Kingman Airport Authority, Inc. (Authority) was incorporated in the State of Arizona in July 1992, as a nonprofit corporation. The Authority operates, maintains, and manages the Kingman Airfield and Industrial Park, collectively known as the Airport for the City of Kingman, Arizona. The Authority is administered by the board of directors who are elected by the membership of the Authority.

The accounting policies of the Kingman Airport Authority, Inc. conform to generally accepted accounting principles as applicable to governmental proprietary fund accounting. The *Governmental Accounting Standards Board (GASB)* is the accepted standards-setting body for established governmental accounting and financial reporting principles.

Reporting Entity

The Kingman Airport Authority, Inc. was formed by transferring the assets and liabilities of the Mohave County Airport Authority, Inc., which related to the Kingman Airfield and Industrial Park, to the Kingman Airport Authority, Inc. The Authority leases the real property at no cost from the City of Kingman, Arizona under a long term lease. Primary sources of funding for the Authority are rents from subleasing real property, proceeds from the sale of real property located in the Kingman Airport Industrial Park, and grants from other governmental units. Functions financed by the Authority include management, maintenance, and development of the Kingman Airfield and the Kingman Airport Industrial Park. The Authority is considered to be a political subdivision of the State of Arizona, Mohave County and the City of Kingman, Arizona with the responsibility of carrying out the function of airport management.

There were no component units which are combined to form the reporting entity.

Basis of presentation – fund financial statements

The Authority only has one fund, an enterprise fund. Accordingly, the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows report information for that single enterprise fund only.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The statement of net position and statement of revenues, expenses and changes in net position are reported using the economic resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency, which may result in disallowance in subsequent periods.

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Basic Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Encumbrance Accounting

Encumbrance accounting methods were not used in the preparation of the Authority's basic financial statements. Uncommitted appropriations lapse at year end and commitments are re-appropriated in the next year's budget.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Budget Policy and Procedures

The Authority adopts an annual nonappropriated budget as a management control device. The budget is prepared on the modified accrual basis, which is a different basis of accounting than is used to present the financial statements. (See Note 1 of Supplementary Information for reconciliation).

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less. For the purpose of the statement of cash flows, the Authority considers investments in the State Treasurer's Investment Pool to be cash equivalents.

Cash and Investments

Cash balances are invested as permitted by law which allows the Authority to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreement, and the State Treasurer's Investment Pool.

Investments are reported at fair value as required by GASB Statement No. 31. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of pool shares.

Accounts Receivable

All trade receivables are shown net of an allowance for uncollectible receivables. The Authority annually reviews the balance in the reserve account during the budget process to determine if, based on past history, the account is adequate to cover current trade receivables. If judged to be inadequate, an additional amount is budgeted and recorded over the course of the year. Receivables from governments are assumed to be entirely collectible and are not included in this analysis. The allowance as of June 30, 2017 is \$5,300.

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Basic Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Capital Assets

Additions to property, plant, and equipment are recorded at cost or, if contributed, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of property, plant and equipment is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

When applicable, interest is capitalized on proprietary fund assets acquired with debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Depreciation

Depreciation has been calculated on each class of depreciable property using the straight line method. Estimated useful lives are as follows:

Land Improvements	10-30 Years
Building and Improvements	7-30 Years
Furniture, Machinery, and Equipment	3-8 Years

Income Taxes

The Authority is a governmental agency organized under the laws of the State of Arizona and is not subject to federal or state income taxes.

Proprietary Funds Operating and Non-operating Revenues and Expenses

The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Basic Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Net Position

Net position is the difference between assets and liabilities. Net investment in capital assets are capital assets, net of accumulated depreciation and outstanding bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position is present when there are legal limitations imposed on their use imposed by Authority legislation or external parties such as other governments, creditors or grantors. The board is the highest authoritative level and is capable of assigning funds through a unanimous vote.

Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Basic Financial Statements
June 30, 2017

Note 2. Deposits and Investments

As of June 30, 2017 the Authority's cash and investments consisted of the following:

Cash in Bank	\$ 1,521,142
Certificates of Deposit	<u>1,011,302</u>
Total Deposits	<u><u>\$ 2,532,444</u></u>

Deposits

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2017, the Authority's bank balance was \$2,630,568 and none of that balance was exposed to custodial credit risk because it was insured or collateralized.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with provisions of State law which requires that investment portfolio maturities do not exceed five years from the time of purchase.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's policy for reducing its exposure to credit risk is comply with State law which limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Basic Financial Statements
June 30, 2017

Note 3. Capital Assets and Depreciation

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method.

Depreciation expense for the year ended June 30, 2017 was \$1,528,646. Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance 06/30/16	Additions	Deletions	Balance 6/30/2017
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 1,734,986	\$ 2,609,237	\$ (3,630,216)	\$ 714,007
Total capital assets, not being depreciated	<u>1,734,986</u>	<u>2,609,237</u>	<u>(3,630,216)</u>	<u>714,007</u>
Capital assets, being depreciated:				
Land improvements				
Airfield	18,857,204	2,895,521	-	21,752,725
Industrial park	9,048,641	193,201	-	9,241,842
Buildings and improvements				
Airfield	4,423,823	541,494	-	4,965,317
Industrial park	2,060	-	-	2,060
Furniture, Machinery, and Equipment	891,607	26,885	-	918,492
Total capital assets, being depreciated	<u>33,223,335</u>	<u>3,657,101</u>	<u>-</u>	<u>36,880,436</u>
Less accumulated depreciation for:				
Land improvements				
Airfield	(10,125,492)	(1,007,437)	-	(11,132,929)
Industrial park	(5,350,589)	(309,894)	-	(5,660,483)
Buildings and improvements				
Airfield	(1,922,764)	(186,452)	-	(2,109,216)
Industrial park	(1,030)	(69)	-	(1,099)
Furniture, Machinery, and Equipment	(739,035)	(24,794)	-	(763,829)
Total accumulated depreciation	<u>(18,138,910)</u>	<u>(1,528,646)</u>	<u>-</u>	<u>(19,667,556)</u>
Total capital assets, being depreciated, net	<u>15,084,425</u>	<u>2,128,455</u>	<u>-</u>	<u>17,212,880</u>
Business-type activities capital assets, net	<u>\$ 16,819,411</u>	<u>\$ 4,737,692</u>	<u>\$ (3,630,216)</u>	<u>\$ 17,926,887</u>

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Basic Financial Statements
June 30, 2017

Note 4. Construction Commitments

The Authority has several active construction projects at June 30, 2017. The projects involve infrastructure, ramp reconstruction and other miscellaneous projects. At fiscal year end the Authority's commitments with contractors were as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Environmental Assesment Land Release	\$ 247,948	\$ 66,648
Environmental Assesment for 80 Acres	84,336	1,460
Terminal Design	146,180	52,730
Dross Site	235,543	130,761
	<u>\$ 714,007</u>	<u>\$ 251,599</u>

Note 5. Capital Lease Obligations

The Authority has a capital lease for a tractor. The original principal amount of the capital lease was \$47,311. The lease provides for title to pass at the end of the lease term.

The asset acquired through the capital lease is as follows:

Furniture, Machinery, and Equipment	\$ 47,311
Less: Accumulated Depreciation	(37,849)
Total	<u>\$ 9,462</u>

The future minimum lease payments under the capital lease as of June 30, 2017 are as follows:

Year Ending June 30, 2018	<u>10,456</u>
Net Minimum Capital Lease Payments	10,456
Less Amount Representing Interest	(224)
Present Value of Net Minimum Capital Lease Payments	<u>\$ 10,232</u>

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Basic Financial Statements
June 30, 2017

Note 6. Lease Revenues

The Authority leases, under operating leases, certain property and improvements.

The operating leases have varying terms ranging from a month-to-month basis to nineteen years. Most leases extending over a one-year period contain a rent adjustment based on the consumer price index. Some leases contain an option to renew for a similar term.

The following is a summary of property on operating leases at June 30, 2017:

Buildings and Improvements - Airfield	\$ 1,729,418
Land and Improvements - Industrial Park	15,914
Less: Accumulated Depreciation	<u>(1,105,681)</u>
Total	<u>\$ 639,651</u>

Minimum future rentals to be received on cancelable leases as of June 30, 2017, for each of the next five years and in the aggregate are:

Year Ending June 30,	
2018	\$ 1,291,002
2019	172,588
2020	145,860
2021	135,738
2022	139,607
2023-2027	760,266
2028-2032	364,964
2033-2036	<u>225,411</u>
Total Minimum Future Rentals	<u>\$ 3,235,436</u>

Note 7. Related Party Transactions

One of the Authority's board members and one of the Authority's employees are affiliated with one of the banking institutions in which the Authority transacts business as either employees or board members of that institution. At June 30, 2017, the deposits in Mission Bank totaled \$1,403,808.

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Basic Financial Statements
June 30, 2017

Note 8. Retirement Plans

Defined Contribution Pension Plan

The Authority's 401(a) Retirement Plan is a defined contribution pension plan established by the Authority and administered by Nationwide Life Insurance to provide benefits at retirement to all full-time employees of the Authority. At June 30, 2017, there were four plan members. Plan members are required to contribute 6% of covered salary. The Authority is also required to contribute 6% of covered salary. Plan provisions and contribution requirements are established and may be amended by the Authority's governing board. Covered payroll for the year totaled \$290,282. Employee contributions totaled \$15,746 and employer contributions totaled \$15,746 for the year ended June 30, 2017. Employee and employer contributions for the years ending June 30, 2015 and 2016 each totaled \$17,547 and \$15,040, respectively.

Note 9. FAA Commitments for Future Improvements

The Authority is obligated by the Federal Aviation Administration (FAA) to invest an amount equal to the net proceeds of land sales at the Kingman Airport Industrial Park in improvements to and operations of the Kingman Airfield within five years from the date of the sale. The Authority obtained authorization from the FAA during fiscal year 2009-10 to deduct prior year operating expenses from the beginning balance. In fiscal year 2009-10 the Authority had applied enough operating expenses to the fund that it was zeroed out. The Authority had no amounts obligated to be spent for airfield improvements and operations at June 30, 2017. In addition, the Authority has an additional amount of \$15,125,566 of operating expenses that can be used to offset future year land sales. See note 10 for additional information.

Note 10. Contingent Liabilities

In February 2000, the Army Corps of Engineers remediated a portion of the Kingman Airport ("Site"). This remediation consisted of excavating the contaminants and placing the soils into 8 separate pits covered with an asphalt cap. The attempted remediation efforts have failed. Specifically, the asphalt cap has deteriorated, rendering portions of the Site unsuitable for airport operations. The federal government caused the initial contamination and conducted the remediation through a third-party contractor. Therefore, the Kingman Airport Authority, Inc. asserts the federal government should be responsible for the cost to repair the failed remediation. The Federal government is asserting a counterclaim under the Resource Conservation and Recovery Act alleging the Kingman Airport Authority, Inc. must take action to investigate, abate, and remediate the endangerment to health or the environment caused by the release of the heavy metals. On March 31, 2016, the United States District Court approved a partial settlement reached by the parties whereby the Kingman Airport Authority, Inc. is the work party that assesses the work needed to remediate the site and the federal government pays for the work necessary to perform the assessment. The assessment work is on-going, so management is not able to assess the cost of remediation or probability of successfully resolving the claims through settlement or litigation regarding either the Kingman Airport Authority's claims or the federal government's counterclaims.

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Basic Financial Statements
June 30, 2017

Note 10. Contingent Liabilities, Continued

As mentioned in Note 1, the Authority has entered into a long-term capital lease agreement with the City of Kingman wherein the Authority is the lessee of the Kingman Airport. The City of Kingman is pursuing a condemnation action against the Authority to terminate the lease. As of the date of these financial statements, the potential outcome of this action was unknown. In addition, the City has expressed concerns regarding the amounts disclosed in Note 9 of the financial statements. Specifically on whether or not the Authority properly utilized proceeds from land sales in prior years. Management of the Authority maintains the position the amounts in question were properly utilized and the amounts disclosed in Note 9 are correct. As of the date of these financial statements, the outcome of this issue was unknown.

Note 11. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which it carries commercial insurance. There were no significant reductions in coverage from the prior year and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. In addition, the Authority is insured by Auto-Owners Insurance.

Note 12. Prior Period Adjustment

During the year ended June 30, 2017 the Authority reviewed its activity and balances in its construction in process accounts and noted two invoices which were expensed in 2015 but should have been included in construction in process. As a result, a prior period adjustment of \$18,968 was necessary. Additionally, during the year ended June 30, 2017 the Authority reviewed its activity and balances in its prepaid insurance accounts and noted several policies that were not being amortized correctly. As a result, a prior period adjustment of \$27,398 was necessary. These two adjustments caused beginning net position to increase by a total of \$46,366.

SUPPLEMENTARY INFORMATION

KINGMAN AIRPORT AUTHORITY, INC.
Statement of Revenues and Expenses
Budget and Actual – Budgetary Basis -
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Leases	\$ 520,534	\$ 520,534	\$ 565,403	\$ 44,869
Contributions and donations	-	-	11,420	11,420
Interest revenue	500	500	1,775	1,275
Land sales	50,000	50,000	-	(50,000)
Capital contributions	2,121,500	2,121,500	2,348,059	226,559
Miscellaneous income	800	800	540	(260)
Airport Usage Fees	<u>624,400</u>	<u>624,400</u>	<u>736,464</u>	<u>112,064</u>
Total revenues	<u>3,317,734</u>	<u>3,317,734</u>	<u>3,663,661</u>	<u>345,927</u>
Operating expenses				
Salaries and wages	506,450	506,450	392,973	113,477
Payroll taxes and benefits	182,100	182,100	146,492	35,608
Office Expenses	19,350	19,350	12,663	6,687
Professional services	117,000	117,000	84,721	32,279
Maintenance and repairs	116,500	116,500	51,835	64,665
Motor pool	40,000	40,000	11,954	28,046
Operational expense	271,500	271,500	212,361	59,139
Debt Service	-	-	10,456	(10,456)
Capital outlay	<u>3,180,000</u>	<u>3,180,000</u>	<u>2,617,154</u>	<u>562,846</u>
Total expenses	<u>4,432,900</u>	<u>4,432,900</u>	<u>3,540,609</u>	<u>892,291</u>
Excess (deficiency) of revenue over expenses	<u>(1,115,166)</u>	<u>(1,115,166)</u>	<u>123,052</u>	<u>1,238,218</u>

KINGMAN AIRPORT AUTHORITY, INC.
Notes to Supplementary Information
For the Year Ended June 30, 2017

Note 1. Basis of Accounting

The adopted budget of the Enterprise Fund was prepared on the modified accrual basis. Consequently, the following adjustments are necessary to reconcile budgetary to GAAP basis.

	Enterprise Fund	
	Total Operating Revenues	Total Operating Expenses
Statement of Revenues, Expenses and Changes in Fund Net Position	\$ 1,301,867	\$ 2,441,645
Nonoperating revenues and expenses	13,735	624
Adjustments to present data on the budgetary basis:		
Capital contributions	2,348,059	-
Debt Service	-	9,832
Depreciation	-	(1,528,646)
Capital outlay	-	2,617,154
Statement of Revenues and Expenses - Budget and Actual- Budgetary Basis	<u>\$ 3,663,661</u>	<u>\$ 3,540,609</u>

Other Communications From Independent Auditors



MEMBERS:

CHAD B. ATKINSON, CPA
KRIS J. BRAUNBERGER, CPA
ROBERT S. COX, CPA
TODD B. FELTNER, CPA
K. MARK FROST, CPA
MORRIS J. PEACOCK, CPA

PHILLIP S. PEINE, CPA
STEVEN D. PALMER, CPA
MICHAEL K. SPILKER, CPA
KEVIN L. STEPHENS, CPA
MARK E. TICHENOR, CPA
MICHAEL J. TORGERSON, CPA

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Kingman Airport Authority, Inc.
Kingman, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Kingman Airport Authority, Inc. as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HintonBurdick Arizona PLLC

HintonBurdick Arizona, PLLC
Flagstaff, Arizona
October 30, 2017



MEMBERS:

CHAD B. ATKINSON, CPA
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MICHAEL J. TORGERSON, CPA

**Independent Auditors' Report on Compliance for
Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

Board of Directors
Kingman Airport Authority, Inc.
Kingman Arizona

Report on Compliance for Each Major Federal Program

We have audited the Kingman Airport Authority, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Kingman Airport Authority, Inc.'s major federal for the year ended June 30, 2017. The Kingman Airport Authority, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Kingman Airport Authority, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, (the Uniform Guidance) require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Kingman Airport Authority, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Kingman Airport Authority, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, the Kingman Airport Authority, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control over Compliance

Management of the Kingman Airport Authority, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Kingman Airport Authority, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Kingman Airport Authority, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the Guide. Accordingly, this report is not suitable for any other purpose.



HintonBurdick Arizona, PLLC
Flagstaff, Arizona
October 30, 2017

KINGMAN AIRPORT AUTHORITY, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified? ☐ yes ☒ no

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal Control over major programs:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified? ☐ yes ☒ no

Type of auditor's report issued on compliance
for major programs:

Unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR 200.516? ☒ yes ☐ no

Identification of major programs.

CFDA Number(s)

Name of Federal Program or Cluster

20.106

U.S. Department of Transportation Airport Improvement Program

Dollar threshold used to distinguish between type
A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

KINGMAN AIRPORT AUTHORITY, INC.
Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2017

Section II - Financial Statement Findings

Material Weaknesses:

None noted.

Significant Deficiencies:

None noted.

Section III - Federal Award Findings and Questioned Costs

2017-001 Single Audit Cash Management

Condition: The Authority is submitting reimbursement requests to the granting agency for invoices which have not been paid first by the Authority.

Criteria: According to 2 CFR part 200 (Uniform Guidance) part 3.2, subpart, Cash Management, the Authority should: "Ensure program costs are paid for with entity funds before reimbursement is requested from the Federal Government." The Authority should first pay for expenditures before requesting reimbursement for them from the granting agency.

Cause: The Authority is a small entity with limited resources. The project being reimbursed is large enough that the Authority does not have the cash reserves on hand to pay for all of the invoices before requesting reimbursement.

Effect: \$1,594,114 was requested for reimbursement without the Authority first paying for the requested amount.

Recommendation: We recommend that the Authority first pay for invoices before requesting reimbursement in order to be in compliance with 2 CFR part 200 (Uniform Guidance) part 3.2, subpart, Cash Management. A possible solution would be to acquire a line of credit which would allow the Authority to pay for the expenditures first and then pay off the line of credit with the reimbursements from the granting agency.

KINGMAN AIRPORT AUTHORITY, INC.
Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2017

Section V - Summary Schedule of Prior Audit Findings, Continued

2016-001 Single Audit Cash Management

Condition: The Authority is submitting reimbursement requests to the granting agency for invoices which have not been paid first by the Authority.

Criteria: According to 2 CFR part 200 (Uniform Guidance) part 3.2, subpart, Cash Management, the Authority should: "Ensure program costs are paid for with entity funds before reimbursement is requested from the Federal Government." The Authority should first pay for expenditures before requesting reimbursement for them from the granting agency.

Cause: The Authority is a small entity with limited resources. The project being reimbursed is large enough that the Authority does not have the cash reserves on hand to pay for all of the invoices before requesting reimbursement.

Effect: \$806,346 was requested for reimbursement without the Authority first paying for the requested amount.

Recommendation: We recommend that the Authority first pay for invoices before requesting reimbursement in order to be in compliance with 2 CFR part 200 (Uniform Guidance) part 3.2, subpart, Cash Management. A possible solution would be to acquire a line of credit which would allow the Authority to pay for the expenditures first and then pay off the line of credit with the reimbursements from the granting agency.

Status: We noted during the 2017 audit that the Authority is not in compliance with this requirement and that it is still reported as a finding.

KINGMAN AIRPORT AUTHORITY, INC.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Grantor Agency Program Title Pass Through Grantor	Federal CFDA Number	Grantor's Number	Federal Expenditures
U.S. Department of Transportation			
Federal Aviation Administration			
Passed through the City of Kingman Arizona			
Reconstruct Taxiway C & Aircraft Apron	20.106	3-04-0021-027-2015	<u>\$ 1,627,674</u>
Total U.S. Department of Transportation			<u>1,627,674</u>
Total Federal Assistance Expended			<u>\$ 1,627,674</u>

KINGMAN AIRPORT AUTHORITY, INC.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Note 1. Basis of Presentation

Reporting Entity:

The accompanying schedule of expenditures of federal awards presents the activity or expenditure of all federal awards programs of the Kingman Airport Authority, Inc. (Authority) for the year ended June 30, 2017. The Authority's reporting entity is defined in Note 1 of the basic financial statements. All expenditure of federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

Basis of Accounting:

This accompanying schedule of expenditures of federal awards has been prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

Relationship to Basic Financial Statements:

Expenditures of federal awards have been reported in the construction in progress account and subsequently capitalized.

Indirect Cost Rate:

The Authority did not elect to use the 10% de minimis indirect cost rate for fiscal year 2017.

Federal Loans:

The Authority did not have any federal loans for fiscal year 2017.

Subrecipients:

There were no subrecipients for fiscal year 2017.